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RUEATRS/DEPT OF TREASURY WASHINGTON DC  
INFO RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS  
RUEHKO/AMEMBASSY TOKYO 9750  
RUEHBJ/AMEMBASSY BEIJING 3374  
RUEHBY/AMEMBASSY CANBERRA 9338  
RUEHUL/AMEMBASSY SEOUL 3647  
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UNCLAS SECTION 01 OF 03 JAKARTA 004964

SIPDIS

SENSITIVE  
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AIDAC

DEPT FOR EAP/MTS AND EB/IFD/OMA  
TREASURY FOR IA-ANNA JEWELL AND IRS RETTA JONES  
DEPARTMENT PASS AID  
DEPARTMENT PASS FEDERAL RESERVE SAN FRANCISCO

E.O. 12598: N/A  
TAGS: [ECON](#) [EFIN](#) [EAID](#) [PINR](#) [PREL](#) [PGOV](#) [ID](#)  
SUBJECT: INDONESIA: TAX REFORM MOVES FORWARD

REF: JAKARTA 610

11. (SBU) Summary. Finance Minister Sri Mulyani Indrawati told donors on April 19 that President Yudhoyono would sign a decree very soon appointing two prominent Indonesians, Ma'rie Muhammad and Marsilam Simanjuntak, to help steer the Ministry of Finance's (MOF) tax and customs reform efforts. Both Muhammad and Simanjuntak have reputations for being clean and outspoken on anti-corruption. Mulyani said the MOF's planned tax reforms are wide-ranging and require a dedicated effort. Priorities include improving audits and speeding up value-added tax (VAT) refunds, strengthening internal controls, reducing arbitrariness in interpretation, improving public relations, and modernizing the Directorate General of Taxation's (DGT) computer and personnel systems. Mulyani said she needs lots of help in the form of long-term resident advisors, not short-term missions that leave thick reports. We expect Mulyani to make a strong pitch for USG assistance during her April 21-23 meetings in Washington, and encourage Washington agencies to respond favorably. End Summary.

Mulyani Needs "Quick Wins"

12. (SBU) Finance Minister Sri Mulyani Indrawati told donors on April 19 that President Susilo Bambang Yudhoyono (SBY) will announce very soon two "prominent persons" to assist on tax and customs reform. The two are former Finance Minister Marie Muhammad and former Attorney General and Minister of Justice Marsilam Simanjuntak (biodata paras 7-8). Both have excellent reputations as clean, reform-minded and outspoken on anti-corruption. Mulyani did not specify the precise roles or positions the two would hold, or whether they would head a "Tax Reform Steering Committee" the IMF and other donors have encouraged her to create. Mulyani also said that the work of an internal DGT "Tax Modernization Team", whose mandate ran out last December, would continue. Tax reform is very time intensive, she noted, "and would take too much of my time to manage personally." It is important to show results and have "quick wins" especially in areas companies have complained about such as audit and VAT refund procedures.

13. (SBU) Mulyani said she will outline her tax reform

strategy and seek U.S. assistance during April 21-23 meetings in Washington. She said she seeks a focused discussion on strategies Indonesia could use to move forward, and said a senior DGT official will accompany her.

#### Donors Pledge Support for Tax Reform

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¶4. (SBU) Mulyani emphasized her wish for long-term resident advisors, rather than short-term experts who would drop in for a week or two and write a thick report "that goes straight into the garbage. I need people working with us long-term, pushing and shaping the reform process," she said. Donors welcomed Mulyani's commitment to push tax reform forward, and pledged a range of support. The IMF Senior Resident Representative offered a long-term resident advisor to work with Muhammad and Simanjuntak, provide advice on tax policy questions, and coordinate donor assistance. The World Bank, Australia, Japan, Sweden, and the U.S. all assured Mulyani of commitment to help her goals. Mulyani emphasized the need for donor flexibility since the tax reform process is both wide-ranging and dynamic--unseen challenges may emerge. She suggested regular quarterly meetings with donors for tax reform updates.

#### Tax Modernization: What Does it Look Like?

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¶5. (U) The DG Tax modernization team presented five priorities for 2006: upgrading human resource management; strengthening information and communication technology, improving the audit and VAT refund processes, reviewing the

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performance of existing "modernized" tax offices, and improving communication. The team grouped improvements under three main goals:

##### A) Compliance:

- Improving service by simplifying procedures, delivering fast and friendly service, and disseminating tax policy effectively.
- Combating non-compliance through intensification (increasing collections from existing taxpayers), "extensification" (increasing the number of registered taxpayers) and improved data.
- Improving legal certainty through uniform and consistent tax interpretation of tax code.

B) Efficiency: Making tax systems and administration more reliable through re-organizing tax offices on functional lines, better using technology, and developing simple and clear working procedures.

##### C) Integrity and Good Image:

- Developing professional staff with integrity, instituting a fair human resource management system based on performance and strict and consistent implementation of a code of conduct.
- Developing a good corporate culture with strong values.
- Accountable and Transparent Organization: Systematizing internal controls and effective complaint management.
- Improving stakeholder communications.

With the persons named and the committee formed, donors will have designated interlocutors for tax reform assistance.

¶6. (SBU) Comment: Donors have strongly encouraged Mulyani to appoint a high-profile, public-private steering committee to guide what will surely be a very difficult and controversial reform effort. Although it is not clear what sort of structure she envisions setting up, the appointment of Muhammad and Simanjuntak will be a significant step forward,

and put two very credible individuals at the head of the tax reform process. It is also encouraging that Mulyani wants to score "quick victories" on two of the most frequent complaints of the foreign business community-- non-transparent tax audits (often accompanied by rent-seeking) and lengthy VAT refunds. We expect Mulyani to make a strong pitch for USG support for the GOI's tax reform program during her April 21-23 meetings in Washington, and encourage Washington agencies to offer all appropriate assistance.

Bio Data: Mar'ie Muhammad and Marsilam Simanjuntak

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17. (SBU) Mar'ie Muhammad: Mar'ie Muhammad, 67, is currently head of the Indonesian Red Cross. He served as Finance Minister under former President Suharto from March 1993 to March 1998. Widely known as "Mr. Clean" when he was Finance Minister, Suharto removed him from the cabinet after Muhammad voiced strong opposition to a plan to institute a currency board. One of the most controversial decisions during his tenure involved closing 16 ailing commercial banks, including those owned by Suharto's half-brother Probosutedjo and son Bambang Trihatmodjo. Probosutedjo and Bambang filed and later dropped lawsuits against Mar'ie and the Bank Indonesia Governor at the time over the closures. Muhammad set up the Indonesian Society for Transparency in 1998 to focus on good governance and anti-corruption. A student activist during the late 1960s, Muhammad graduated from the University of Indonesia's School of Economics in 1969, and has served in government positions since 1970.

18. (SBU) Marsilam Simanjuntak: Served as Cabinet Secretary from 1999 - 2000 under President Abdurrahman Wahid (Gus Dur), Minister of Justice from 2000 - 2001, and Attorney General in 2001. After leaving government, Simanjuntak served on the Advisory Board of Commissioners of state-owned airline Garuda from May 2003 - August 2004. He graduated

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from the University of Indonesia with a degree in medicine in 1971. During the 1970s, Simanjuntak became actively involved in the Anti-Corruption Commission. Simanjuntak spent 17 months in military detention without trial for his alleged involvement in the Malari incident (massive anti-Japan student riots) in January 15, 1974. After his release Simanjuntak was appointed Chief of Health at Garuda Airlines. He retired early after refusing to join the Indonesian Civil Service Corps (Korpri), which could be viewed as an anti-Soeharto stance. Simanjuntak obtained a law degree from the University of Indonesia in 1989.

PASCOE